Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Northern Montana College

This report contains nine recommendations for improvement of the college's operations. Items addressed in the report include:

- **Improving budgetary control procedures.**
- **Complying with federal matching, allowability, and reporting requirements.**
- **Improving equipment accountability.**
- **Complying with state laws concerning students' right to privacy.**

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

May 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on Northern Montana College's financial activity for fiscal years 1989-90 and 1990-91. The university system written responses to the audit recommendations are included in the back of the report.

We thank Northern Montana College officials and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Northern Montana College

Members of the audit staff involved in this audit were Pearl M. Allen, Mark C. Barry, Rebecca Dorwart, Renee Foster, Frieda M. Houser, Tori Hunthausen, Paul J. O'Loughlin and Julie Quist.

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Appointed and Administrative Officials

Board of Regents of Higher Education

		Term Expires
Stan Stephens, Governor*		
Nancy Keenan, Superintendent of Public Instruction*		
William L. Mathers, Chairman	Miles City	1994
Thomas F. Topel	Billings	1993
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997
Paul F. Boylan	Bozeman	1998
Jim Kaze	Havre	1999
Kathey S. Rebish, Student Regent	Missoula	1992

*Ex officio member

Commissioner of Higher Education

Dr. John M. Hutchinson
Commissioner of Higher Education

John H. Noble, Jr. until December 20, 1991
Rod Sundsted, Acting as of December 21, 1991
Deputy Commissioner for Management and Fiscal Affairs

Laurie O. Neils
Director of Budget and Accounting

Northern Montana College

Dr. William Daehling, President

Dr. Martha Anne Dow, Academic Vice President

William R. Byars, Director of Fiscal Affairs

William J. O'Donnell, Controller

This listing below serves as a means of summarizing the recommendations contained in the report, the university system responses thereto, and a reference to the supporting comments.

Introduction

We performed a financial-compliance audit of Northern Montana College (NMC) for the two fiscal years ended June 30, 1991. The objectives of the audit were to:

1. Determine if there are conditions which should be reported to NMC regarding its management and internal control structures.

2. Determine NMC's compliance with applicable state and federal laws and regulations.

3. Issue an opinion on the financial statements prepared by NMC personnel for the two fiscal years ended June 30, 1991, including supplementary bond schedules for the fiscal year ended June 30, 1991.

4. Determine the status of prior audit recommendations made to the college.

This report contains nine recommendations which address areas where administrative and accounting controls, compliance with laws and regulations, and accountability can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the college's programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

Background

NMC is a regional, multi-purpose institution providing programs in middle technology (i.e., vocational education and industrial technology), the liberal arts and sciences, business, nursing, and teacher education. NMC offers programs at the associate, baccalaureate, and master's degree levels. The college offers a master's program in education, with options in counseling and development, elementary education, vocational-technical education, and general science. Graduate education includes a fifth-year program for elementary and secondary teachers.

NMC offers courses at two locations in Great Falls as well as on campus in Havre. NMC employs approximately 184 full-time employees. The college is financed by state appropriations from the General Fund and University Millage accounts. Revenue is also generated from student fees, federal grants, private gifts and grants, and auxiliary enterprise operations.

Prior Audit Recommendations

The previous financial-compliance audit report for the two fiscal years ended June 30, 1989 contained 13 recommendations still applicable to the college's operations. Of these recommendations, the college implemented nine and partially implemented four.

Three of the partially implemented recommendations concern: (1) compliance with state appropriation laws (pages 4-10); (2) recording financial activity in accordance with state law (pages 8-10); and (3) recording physical assets on the college's accounting records in accordance with state policy (pages 15-17). The fourth partially implemented recommendation concerned establishing accountability for a $6,231 endowment transferred to the NMC Foundation. The college recorded the $6,231 endowment, but not the related interest earnings as recommended.

Findings and Recommendations

Budget Control Procedures

As part of our audit of the college, we tested compliance with state appropriation laws. We found (1) expenditures exceeded approved operating budget categories by more than the 5 percent allowed by state law; (2) approved operating budgets were not properly recorded on SBAS; and (3) transactions were improperly made to transfer cash or spending authority. College personnel responsible for monitoring the college budget attributed the errors to inaccurate budget planning and not communicating with other college administrators about anticipated budget problems.

The following three sections specifically discuss our concerns with college procedures for ensuring compliance with appropriation laws and address recommendations the college should consider to improve its procedure. We also discuss compliance with section 17-1-102, MCA, which requires financial activity be recorded on the state's accounting records in accordance with generally accepted accounting principles.

Compliance with Operating Budgets

House Bill 100, Laws of 1989, requires NMC expenditures be made in substantial compliance with an operating budget approved by the Board of Regents. Each operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, and equipment. The bill defines substantial compliance as no expenditure category may be overspent by more than 5 percent. The bill further requires:

1. Forms used for changing an operating budget reference the current fully completed and approved operating budget and show the proposed changes to the operating budget.

2. The college record the operating budget or plan and any approved changes on the state's accounting records.

NMC submitted three program transfers affecting the Current Unrestricted General Operating Subfund in each year of our audit period. The three program transfers for fiscal year 1989-90 and the first program transfer for fiscal year 1990-91

documented the changes to program totals, but did not document the change by expenditure category. Because the fiscal year 1989-90 program transfer documents did not show the allocation of budget authority by expenditure category, it was not possible to determine if NMC substantially complied with its approved operating budget in fiscal year 1989-90. Based on our comparison of expenditures to the latest approved operating budget that allocated budget authority by category for fiscal year 1989-90, it appears NMC exceeded four budget categories by more than 5 percent. In fiscal year 1990-91, NMC exceeded five budget categories by more than 5 percent. The overspent budget categories are summarized in the following table.

Table 1

Schedule of Approved Operating Budget vs. Actual Expenditures
House Bill 100 Appropriated Funds

	Approved Operating Budget	Actual Expenditures	Over Spent	Percent of Expenditures in Excess of Budget
FY 89-90 Program & Category				
Public Service				
Personal Services	0	16	16	100%
Academic Support				
Equipment	60,744	67,511	6,767	11%
Student Services				
Equipment	8,675	9,657	982	11%
Operation & Maintenance of Plant				
Operating Expenses	662,226	741,247	79,021	12%
FY 90-91 Program & Category				
Public Service				
Personal Services	0	2,398	2,398	100%
Operating Expenses	0	90	90	100%
Academic Support				
Personal Services	483,173	552,480	69,307	14%
Student Services				
Equipment	2,000	8,745	6,745	337%
Institutional Support				
Operating Expenses	426,612	463,357	36,745	9%

Source: Compiled by Office of the Legislative Auditor from Northern Montana College records.

House Bill 100 also requires that no funds appropriated for personal services be expended under any other category unless the approving authority approves a request justified on the basis of documented cost savings. Based on NMC's final approved operating budgets allocating budgets by category, personal services funded $8,733 and $32,840 of operating expenses in the Operation and Maintenance of Plant program in fiscal years 1989-90 and 1990-91, respectively.

Initially, a college official stated he was aware of the House Bill 100 requirements as a result of our previous audit recommendation, but had not implemented procedures to ensure the college complied with the law. Later, college and university system officials informed us the Board of Regents reviewed and approved the college's final fiscal year 1989-90 expenditures when the fiscal year 1990-91 budgets were approved in May 1990. Officials explained that interim fiscal year 1989-90 and initial fiscal year 1990-91 budgets were approved at this time. The college did not record this interim approved budget on the state's accounting records as required by state law.

Officials explained the Board of Regents approved the college's final operating budget for fiscal year 1990-91 when the fiscal year 1991-92 budgets were approved in October 1991. Because the board's approval occurred after the close of fiscal year 1990-91, the budget could not be adjusted on the state's accounting records. The college could not comply with the appropriation law since this operating budget is not recorded on the state's accounting records.

The college should have procedures to ensure approved operating plan changes document the expenditure category affected. The college should also monitor expenditures against authorized operating budgets and determine what action the college should take to comply with restrictive language contained in the general appropriation laws. The 1991 Legislature enacted similar restrictions into substantive law in Chapter 787, Laws of 1991.

Recommendation #1

We recommend the college establish effective procedures to ensure operating budgets are prepared, approved, recorded and expended in accordance with state law.

Approved Budgets Not Properly Recorded on SBAS

House Bill 100, Laws of 1989, requires agencies to record operating budgets and any approved changes on the Statewide Budgeting and Accounting System (SBAS). The bill also requires the college to obtain the Board of Regents' approval of a comprehensive program budget for all funds other than Plant and Current Unrestricted Operating Funds. We noted the following discrepancies between the approved operating budgets and budget authority recorded on SBAS for fiscal year 1990-91.

The college had $2,289,145 of approved Restricted Fund operating authority that it did not record on SBAS. The college also recorded $401,400 more spending authority in 11 entities of the Designated Fund than approved by the Board of Regents. This resulted in the college overspending authorized amounts in two entities as follows.

Table 2

Overspent Authority in Designated Fund
Fiscal Year 1990-91

	Educational Labs	Great Falls Center
Authority Recorded on SBAS	$73,000	$146,000
Authority Approved By Board of Regents	31,000	71,000
Actual Expenditures	39,757	100,994
Amount Overexpended	8,757	29,994

Source: Compiled by Office of the Legislative Auditor from Northern Montana College records.

NMC personnel did not reconcile budgets recorded on SBAS with those approved by the Board of Regents. They also did not adjust spending authority on an appropriation turnaround

document in accordance with directions supplied by the Office of Budget and Program Planning. The college could more effectively monitor budgeted amounts by properly recording the initial authority on SBAS and reconciling budgets recorded on SBAS with those approved by the Board of Regents.

Recommendation #2

We recommend the college establish procedures to ensure the approved budgets are recorded on the state's accounting records in accordance with state law.

Transactions to Reallocate Spending Authority or Cash

NMC personnel recorded at least 20 transactions during fiscal year 1990-91 to move funds to programs that lacked cash or to remove expenditures from programs that lacked spending authority. Many of these transactions, recorded primarily during the fiscal year-end period, lacked sufficient support to determine if the transactions complied with state law and accounting policies outlined in the Montana Operations Manual (MOM). The transactions the college recorded caused inconsistent allocation of revenues and expenditures, which affects the quality, consistency, and comparability of the college's financial activity.

Expenditure Reallocations

The college moved expenditures between programs within its general operating account. For example, because of a lack of expenditure authority, the college eliminated $39,996 of computer service center charges out of its Student Services program and recorded the expenditures in the Instruction program. The college later reversed $70,000 and $20,000 of computer charges out of the Instruction and Academic Support programs, respectively, and recorded the expenditures in the Institutional Support program.

We also found the college eliminated all computer charges in the Student Services program as a result of reallocations. However, this program frequently uses computer services. We estimate

unsupported reallocation transactions increased (decreased) financial activity in fiscal year 1990-91 as shown in the following table. If expenditures had not been reallocated out of the General Operating Subfund, NMC would have overspent its appropriation authority in that subfund.

Table 3

Unsupported Reallocation Activity

Current Unrestricted Subfund		Increase/(Decrease)
General Operating	Expenditures	$(229,016)
Designated	Expenditures	80,054
	Revenue	(53,833)
Auxiliary	Expenditures	95,129

Source: Compiled by Office of the Legislative Auditor from Northern Montana College records.

The college should have a system to allocate charges to the programs that benefit from the services that result in those charges. If the college determines the allocation is inappropriate, and a change is required, the college should document the basis for the change and apply the change equitably to all programs. If the college determines spending authority is insufficient, personnel should take steps to reduce future expenditures or obtain Board of Regents approval for budget adjustments (i.e., program transfers or operating plan amendments).

Revenue Allocations

College officials reversed $31,000 of parking lot revenue and $37,000 of housing and dining revenue in the Current Auxiliary Fund and recorded the $68,000 as intercollegiate athletics revenue in the Designated Fund in fiscal year 1990-91. College officials explained athletics had remaining spending authority but lacked cash to pay for travel and salaries of coaches and staff. To record the movement of parking lot funds in accordance with generally accepted accounting principles, the college should have recorded the transaction as a transfer.

Furthermore, NMC's Series A 1987 bond indenture prescribes allowable uses of housing and dining revenue. The use of housing and dining revenue funds to pay intercollegiate athletics travel and salaries did not comply with the indenture require-

ments. Improper use of the housing and dining revenue could place the bonds in default according to the terms of the indenture. The college should have obtained financial resources through other appropriate means, such as inter-entity loans.

Recommendation #3

We recommend the college:

A. Record financial activity in compliance with state law and bond indenture requirements.

B. Repay $37,000 to the Auxiliary Fund to comply with bond indenture requirements.

Federal Assistance

The college receives federal Carl D. Perkins Grants through the Commissioner of Higher Education. The college also receives federal assistance from the U.S. Department of Education for student financial aid programs and grants from the Environmental Protection Agency.

As a recipient of federal funds, the college is responsible for establishing internal accounting and administrative controls to ensure expenditures are made in compliance with federal regulations. The college must also comply with the terms and conditions of federal awards. The following sections discuss how NMC can improve procedures to ensure compliance with federal regulations.

Carl D. Perkins Grants

Carl D. Perkins Matching Requirements

Federal regulations contained in OMB Circular A-110 (Attachment F), state "recipients' financial management systems shall provide accurate, current, and complete disclosure of financial results of each federally sponsored project or program." Four of the six Carl D. Perkins Grants (CFDA #84.048) received by the

college during fiscal years 1989-90 and 1990-91 required matching funds totalling $80,763 and $43,927, respectively.

The college did not specifically identify on the state's accounting records which expenditures were used to match a particular federal grant because the accounting records were not set up to separately identify matching expenditures. In addition, we determined the college did not meet the required match for the Diesel Tech grant. Without the accounting records separately identifying expenditures used as match, the potential exists for the college to use the same expenditure as match on more than one grant. The potential also exists for the college to recover the same expenditure through both direct and indirect charges.

Because the college did not identify on the accounting records expenditures used to meet the matching requirements or did not meet the matching requirements, we question the following amounts of federal funds.

Table 4

Questioned Costs - Carl D. Perkins Grants (CFDA #84.048)

Grant Program	Fiscal Year 1989-90	Fiscal Year 1990-91
Vo-Ed Research	$147,022	
Diesel Tech	1,584	
Peer Counseling	26,892	$41,932
Career Choices		17,245

Source: Compiled by the Office of the Legislative Auditor from Northern Montana College records.

Recommendation #4

We recommend the college establish procedures to separately identify expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Administrative Controls

NMC personnel are responsible for establishing procedures to ensure the charges made to federal assistance programs are allowable under federal requirements. Such procedures normally include review and approval of charges by personnel who are responsible for the program and familiar with federal requirements.

According to NMC's procedures, the business office receives all the college's bills. If a bill is under $200 and is from another campus organization, the business office pays the bill without approval and gives a copy to the program director. Otherwise the business office obtains approval from program personnel administering the grant. The approval given to the business office may be verbal and may be from someone other than the program director. Thus, the person approving the payment may be someone unfamiliar with federal regulations concerning costs allowable under the grant.

We noted the college charged entertainment expenses of $394 to the Native American Peer Counselors grant in fiscal year 1989-90. Office of Management and Budget (OMB) Circular A-21, cost principles for educational institutions, states entertainment expenses are not allowable charges to a grant. Officials explained the costs were for banquets to recognize the achievements of the students participating in the program as specified in the grant proposal. The college also charged athletic and recreation expenses of $77 and $594 to the program in fiscal years 1989-90 and 1990-91, respectively. Officials explained these charges were to promote a sense of identity of the students enrolled in the program, which is one of the purposes of the grant. However, such expenditures are not allowable charges to Carl D. Perkins grants if the expenditures were for services provided to someone not enrolled in the program, such as spouses or other family members. We were not able to determine if the expenditures benefited individuals not enrolled in the program.

We do not specifically question the expenditures noted above because we have already questioned them in the report section on matching requirements (pages 10-11). However, the college should establish procedures to ensure expenditures are allowable

according to federal requirements, particularly for transactions less than $200. The college could improve procedures by establishing and documenting responsibility for approving charges made to federal assistance programs.

Recommendation #5

We recommend the college:

A. Establish and document responsibility for approving charges to federal programs.

B. Ensure employees approving charges to federal programs are familiar with regulations regarding which costs are allowable to the programs.

Student Financial Aid

Student Status Confirmation Reports

Federal regulations require the college to notify a lender or guarantee agency whenever a student who received a Stafford Loan (CFDA #84.032) graduates, withdraws, or becomes enrolled less than half-time. Under federal regulations, students meeting these categories may have to begin repaying their loans. The college's notification enables the lenders to place the loans in repayment status. NMC reports the changes to the guarantee agency twice a year on a Student Status Confirmation Report (SCR). The SCR lists all students receiving a loan and their latest enrollment status. It is NMC's responsibility to make the necessary changes to the SCR and return it to the guarantee agency within 30 days.

On the SCR dated March 31, 1991, we found the enrollment status recorded on the report did not agree with criteria established by the college for two of twenty-five students tested. A graduate student taking three credits and an undergraduate student taking three credits were identified on the SCR as half-time students. According to NMC's catalog, an undergraduate

student enrolled for less than six credits is defined as less than half-time. A graduate student enrolled for less than five credits is defined as less than half-time. Therefore, the college should have classified the two students as less than half-time.

The Financial Aid Office said they consider graduate students to be enrolled half-time if the student is enrolled for three credits. However, federal requirements state a graduate student's enrollment status is determined by the institution according to its own standards. Therefore the enrollment status would be determined according to the college's catalog. College personnel cited human error as the cause for the undergraduate error. In both cases, the guarantee agency was not notified in accordance with federal regulations.

Recommendation #6

We recommend the college improve procedures to ensure the guarantee agency is notified of student enrollment status changes in accordance with federal regulations.

Exit Conferences

Federal regulations direct the college to provide exit counseling for borrowers to inform them of their obligations to repay Perkins (CFDA #84.038) and Stafford (CFDA #84.032) loans. Federal guidelines state that if the college discovers a student borrower has left without an exit interview, the college must contact the borrower and provide the necessary exit information. We reviewed the files of five students who withdrew from NMC during the audit period. NMC did not hold an exit conference with two of these students.

The Student Financial Aid Office compares the previous quarter enrollment to the current quarter enrollment after the third week to determine if a student withdrew between quarters. Financial Aid Office personnel said they overlooked one of the students and had not performed the comparison for the other student because of staff turnover. We determined the college could

improve procedures to ensure that errors such as these are eventually detected and, as a result, comply with the federal requirement.

Recommendation #7

We recommend the college improve procedures to ensure required exit interviews are held in accordance with federal regulations.

Equipment Records

Northern Montana College recorded equipment of $3,929,480 in the Net Investment in Plant Fund at June 30, 1991. Section 17-1-102, MCA, requires each state agency, including units of the university system, to record receipt, use, and disposition of property for which it is accountable in accordance with generally accepted accounting principles. In our prior audit, we recommended the college implement procedures to ensure equipment is properly recorded in the college's accounting records. We found the college had implemented procedures to conduct a physical inventory of fixed assets; however, during our audit we noted areas where accountability could be improved.

Duplicate Recording

We were provided with an equipment list and a separate list of vehicles and vehicle valuations. NMC stated the vehicles were not included on the equipment listing. NMC recorded the amounts from each list on the accounting records. However, we determined 24 vehicles were on both lists and three of these vehicles were listed at different valuations on each list. A college official said the error was an oversight discovered after the end of the fiscal year. The official stated fixed asset records on SBAS were overstated by $163,778 at June 30, 1991 due to this error. The college adjusted its presented financial statements for the error. However, it should also adjust its accounting records.

Unrecorded Donations

State accounting policy requires donated assets be recorded at estimated fair market value (determined from a receipt, letter or other document evidencing the gift) on the date the gift is received. In our prior audit, we reported the college did not record donated items on its records. During the current audit, we determined the college did not include donations received prior to or during fiscal years 1989-90 and 1990-91 on its records. As a result, equipment is understated by as much as $400,511. College officials explained there are restrictions attached to the donated equipment; such as uses of the equipment in school programs and disposition. These restrictions limit the value of the donations to less than the value stated in the acknowledgement of receipt issued by the college. We believe the college should use and document a reasonable estimate of the fair market value a donation has to college training programs at the date of donation. The college should consult with the Commissioner of Higher Education and other university units to establish procedures for estimating the fair market value of donated assets.

Physical Inventory Procedures

The college hired students to conduct most of the physical inventory and to adjust the inventory records. College officials gave these students verbal instructions to verify that equipment on the inventory listing existed and to add equipment not listed to the inventory records. The students were also instructed to tag all items with values in excess of $500. We found donated engines and shop equipment such as a drill press, with estimated values greater than $500 which were not tagged. State property accounting policy directs the college to assign a property number to each fixed asset, including donated fixed assets, and attach a tag to correspond to the number. The tags aid in conducting the physical inventory, can identify location of the asset, and identify the asset as state property. A college official said the procedures were established to ensure all property over $500, whether purchased or donated, was tagged. He did not ensure the procedures were followed at each of the college's departments.

Recommendation #8

We recommend the college:

A. Establish procedures to ensure assets are recorded only once on the accounting records.

B. Record all property items, including donated, on the accounting records in compliance with state policy.

C. Comply with state policy by assigning property numbers and affixing tags to all property items.

Students' Right to Privacy

We reviewed the contract and other forms used by the college for students who reside in campus housing. We noted two instances of noncompliance with laws ensuring students' right to privacy.

Section 20-25-512, MCA, states the college may not require a student to sign any contract which would waive the student's right to privacy. Section 20-25-513, MCA, requires college officials to notify students in writing before entering a room unless an emergency exists. When checking into a residence hall, students are required to sign a "Residence Hall Check-In/Out Record" which documents the condition of the assigned room and contains several statements regarding the conditions of renting a room from NMC. One of these statements is: "I understand that the room is subject to inspection for health, safety, or in case of emergency at any time by an authorized staff member." Entry for health and safety reasons is not allowed by state law unless the student is previously notified in writing. Thus, by signing the Residence Hall Check-In/Out Record, students waive their right to privacy. College officials stated they were not aware of the state law's requirements.

The residence hall contract states residents will be notified 24 hours in advance of any inspection or maintenance of their room. The contract does not require notice to be in writing. By revising the contract to say notification must be in writing and to further define written notification, the college could prevent confusion leading to noncompliance with the law.

Recommendation #9

We recommend the college amend its Residence Hall Check-In/Out Record and contract to comply with state law.

Preventive Maintenance Plan

In our financial-compliance audit report for the two fiscal years ended June 30, 1987, we noted concerns with the condition of the physical plant and recommended the college establish a preventive maintenance plan. During our previous audit we found beginning January 1, 1990, the college contracted with an independent service organization to manage the physical plant. The contract required the service organization to develop a comprehensive long-range preventive maintenance plan. Because we determined the college had taken steps to implement the audit recommendation, we made no recommendation in the audit report for the two fiscal years ended June 30, 1989.

A college official said the service organization could not provide utility cost savings that were to be used to offset the cost of the contract. As a result, the college cancelled the contract with the service organization before a preventive maintenance plan was developed. The director of fiscal affairs assumed the duties of managing the physical plant. He has not yet established a formal preventive maintenance plan.

Preventive maintenance helps control deterioration of the physical plant to avoid costly repairs and renovation. Preventive maintenance also ensures the physical plant is kept in a condition to allow public access and use. During the time we spent at NMC on our current audit, we observed water damage in unused areas of Donaldson Hall, roof leakage in a storage area of Morgan Hall, and exterior deterioration of Pershing Hall. We also noted a lack of paint and caulking maintenance to windows at Cowan Hall and other buildings.

College personnel indicated most of the deterioration we noted was identified in the $21.9 million long-range building plan submitted during the 1991 legislative session. Projects in the plan include replacing the roof at Morgan Hall ($98,000), replacing windows at Cowan Hall ($200,000), and repairs to Pershing Hall ($92,500).

The college also has buildings such as Hagener Science Center, Mackenzie Hall, and the Student Union that require regular

preventive maintenance. To establish a sound preventive maintenance program, the college should identify and list the following types of items which must be maintained: (1) facilities/buildings; (2) interior and exterior physical components (i.e., doors, windows, roofs, sidewalks, parking lots, and etc.); (3) mechanical components (heating, air conditioning, plumbing, electrical, and etc. systems); and (4) other equipment and miscellaneous items on campus. Once this listing is completed, the college should schedule and perform preventive maintenance and inspections in a timely manner to maintain the college and its components in good operating condition. Preparing and implementing a comprehensive preventive maintenance plan would protect against the costly deterioration that has been noted in the college's long-range building plan.

College personnel informed us that the physical plant's budget is taken from the base years budget and adjusted for inflation. Without a comprehensive maintenance plan, college personnel cannot adequately document the needs of the physical plant. We were not able to determine the cost of a comprehensive preventive maintenance plan for the college.

College and university officials have requested funds from the legislature for major repair projects for the university system. Because college and university system officials believe the legislature is aware of the repairs needed to the college's physical plant, we make no recommendation.

Independent Auditor's Report & College Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts presented in the statements shown on pages 25 through 41.

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Northern Montana College as of June 30, 1991, and the related Statements of Changes in Fund Balances and Statements of Current Fund Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 1991, and the results of operations and changes in fund balances of Northern Montana College for the two fiscal years then ended, in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Assets, Liabilities and Fund Balance as of June 30, 1991 and the related Schedule of Revenues, Expenditures, Transfers and Changes in Fund Balance for the fiscal year then ended for the Auxiliary Facilities and Student Building Fees Revenue Bonds, Series A 1987 Pledged Revenue Fund, and the Board of Regents of Higher Education Special Purpose Revenue Bonds, Northern Montana College Equipment Financing, Series C 1986 Pledged Revenue Fund, are presented as supplemental information and are not a required part of the basic financial statements. This

information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 20, 1991

MONTANA COLLEGE
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	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	PLANT FUNDS				AGENCY FUNDS
	Unrestricted	Restricted			Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant	
	$527,409	$17,450	$26,455	$61	$5,695	$2,421	$45,581		$11,971
;	1,296,031	22,665	20,820	355	661				3,978
ance for									
le Accounts	(11,048)								
udents			2,974,119						
Principal Collected			(1,610,804)						
ancellations			(446,134)						
ederal Government		43,640							
	84,600		99,900	71,732	9,000	213,181	279,400		155,000
	232,106								
enses	97,611								
Work In Progress					$7,144	121,861			
								470,449	
ts								149,200	
								9,638,017	
								3,765,702	
ks								1,086,097	
ETS	$2,226,709	$83,755	$1,064,356	$72,148	$72,500	$337,463	$324,981	$15,109,465	$170,949
ayable	1,628,319	$41,030	$7,284	$4,829	$7	$87,281	$145,579		$22,736
ld for Others	32,932								148,893
llections	362,025	42,660			9,502				
ble								1,395,227	
ble					50,000	50,000			
ble								112,491	
ed Absences	598,035								
BILITIES	$2,621,311	$83,690	$7,284	$4,829	$59,509	$137,281	$145,579	$1,507,718	$171,629
ALANCE	(394,602)	65	1,057,072	67,319	12,991	200,183	179,402	13,601,747	(680)
LITIES AND FUND BALANCE	$2,226,709	$83,755	$1,064,356	$72,148	$72,500	$337,464	$324,981	$15,109,465	$170,949

the financial statements are an integral part of this statement

MONTANA COLLEGE
T OF CHANGES IN FUND BALANCES
R ENDED JUNE 30, 1991

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	PLANT FUNDS			
	Unrestricted	Restricted			Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant
AND OTHER ADDITIONS								
d Fees	$2,399,829				$61,398			
ropriations	6,530,517							
rants and Contracts		$1,821,070	$57,741					
nts and Contracts	18,694	11,888						
fts and Grants		285,684	5,741					
nt Income	24,971	4,829	7,264		843	$19,144	$14,980	
n Loans Receivable			14,584					
uxiliary and ted Services	1,748,511							
ost Recoveries	30,789							
nt in Plant Facilities								18,736
nt of Indebtedness								75,634
	12,169		10,779	$68				
EVENUES AND ADDITIONS	10,765,480	2,123,471	96,109	68	62,241	19,144	14,980	94,370
URES AND OTHER DEDUCTIONS								
nal and General	9,330,848	2,122,414			500			
Enterprises	1,828,410							
ncellations			21,488					
rative and Collection Costs			11,663					
d for Plant Facilities					20,333			50,271
ent of Indebtedness						35,000	40,635	
on Indebtedness						62,780	54,456	
	4,165	2,501	6,396			452	369	
EXPENDITURES AND DEDUCTIONS	11,163,423	2,124,915	39,547	0	20,833	98,232	95,460	50,271
RS - ADDITIONS (DEDUCTIONS)								
ory Transfers					(41,792)		41,792	
datory Transfers	(10,000)				10,000			
TRANSFERS	(10,000)	0	0	0	(31,792)	0	41,792	0
CR (DECR) IN FUND BALANCE	(407,943)	(1,444)	56,562	68	9,616	(79,088)	(38,688)	44,099
NG FUND BALANCE	13,341	1,509	1,000,510	67,251	3,375	279,270	218,090	13,928,358
MENTS								(370,710)
ED BEGINNING FUND BALANCE	13,341	1,509	1,000,510	67,251	3,375	279,270	218,090	13,557,648
FUND BALANCE	($394,602)	$65	$1,057,072	$67,319	$12,991	$200,182	$179,402	$13,601,747

s to the financial statements are an integral part of this statement

NORTHERN MONTANA COLLEGE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
FISCAL YEAR ENDED JUNE 30, 1991

	CURRENT FUNDS		TOTAL
	Unrestricted	Restricted	
REVENUES:			
Tuition and Fees	$2,399,829		$2,399,829
State Appropriations	6,530,517		6,530,517
Federal Grants and Contracts		1,821,070	1,821,070
State Grants and Contracts	18,694	11,888	30,582
Private Gifts and Grants		285,684	285,684
Investment Income	24,971	4,829	29,800
Sales of Auxiliary and Designated Services	1,748,511		1,748,511
Indirect Cost Recoveries	30,789		30,789
Other Sources	12,169		12,169
TOTAL REVENUES	$10,765,480	$2,123,471	$12,888,951
EXPENDITURES:			
Educational and General Funds:			
Instruction	$4,587,479	$102,732	$4,690,211
Public Service	115,699	75,067	190,766
Academic Support	716,567	17	716,584
Student Services	1,202,991	287,390	1,490,381
Institutional Support	1,236,134		1,236,134
Operation and Maintenance of Plant	1,196,587	2,000	1,198,587
Scholarships and Fellowships	275,391	1,655,208	1,930,599
Educational and General Total	$9,330,848	$2,122,414	$11,453,262
Auxiliary Enterprises:			
Expenditures	$1,828,410		1,828,410
Auxiliary Enterprises Total	$1,828,410		$1,828,410
TOTAL EXPENDITURES AND TRANSFERS	$11,159,258	$2,122,414	$13,281,672
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Prior Year Adjustments	(4,165)	(2,501)	(6,666)
Nonmandatory Transfers	(10,000)		(10,000)
TOTAL OTHER TRANSFERS AND ADDITIONS	(14,165)	(2,501)	(16,666)
NET INCREASE (DECREASE) IN FUND BALANCE	($407,943)	($1,444)	($409,387)

The notes to the financial statements are an integral part of this statement.

ERN MONTANA COLLEGE
IENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1990

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	PLANT FUNDS			
	Unrestricted	Restricted			Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
IES AND OTHER ADDITIONS								
end Fees	$2,313,931				$60,382			
Appropriations	6,580,884							
l Grants and Contracts		$1,942,303	$137,992					
Grants and Contracts	45,653	9,746						
Gifts and Grants		216,504	6,300	2,068				
nent Income	27,236	5,123	3,197	32	1,483	26,220	15,299	
t on Loans Receivable			16,021					
of Auxiliary and inated Services	1,801,655							
t Cost Recoveries	39,276							
nent in Plant Facilities								
nent of Indebtedness								95,780
	11,127		10,625					
. REVENUES AND ADDITIONS	10,819,762	2,173,676	174,135	2,100	61,865	26,220	15,299	95,780
DITURES AND OTHER DEDUCTIONS								
tional and General	9,263,776	2,171,068			21,539			
ry Enterprises	1,732,166							
Cancellations			28,348					
istrative and Collection Costs			5,260					
ded for Plant Facilities					187,039	10,000		
ment of Indebtedness							72,659	
st on Indebtedness							122,355	
	24,731	3,457	610			195	195	
. EXPENDITURES AND DEDUCTIONS	11,020,673	2,174,525	34,218	0	208,578	10,195	195,209	0
FERS - ADDITIONS (DEDUCTIONS)								
atory Transfers	(147,723)				(47,292)		195,015	
andatory Transfers	(35,000)				35,000			
L TRANSFERS	(182,723)	0	0	0	(12,292)	0	195,015	0
NCR (DECR) IN FUND BALANCE	(383,634)	(849)	139,917	2,100	(159,005)	16,025	15,105	95,780
JING FUND BALANCE	396,975	2,358	860,593	58,920	162,380	272,649	202,987	13,832,578
TMENTS				6,231		(9,404)		
TED BEGINNING FUND BALANCE	396,975	2,358	860,593	65,151	162,380	263,245	202,987	13,832,578
S FUND BALANCE	$13,341	$1,509	$1,000,510	$67,251	$3,375	$279,270	$218,092	$13,928,358

es to the financial statements are an integral part of this statement.

NORTHERN MONTANA COLLEGE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
FISCAL YEAR ENDED JUNE 30, 1990

	CURRENT FUNDS		TOTAL
	Unrestricted	Restricted	
REVENUES:			
Tuition and Fees	$2,313,931		$2,313,931
State Appropriations	6,580,884		6,580,884
Federal Grants and Contracts		1,942,303	1,942,303
State Grants and Contracts	45,653	9,746	55,399
Private Gifts and Grants		216,504	216,504
Investment Income	27,236	5,123	32,359
Sales of Auxiliary and Designated Services	1,801,655		1,801,655
Indirect Cost Recoveries	39,276		39,276
Other Sources	11,127		11,127
TOTAL REVENUES	$10,819,762	$2,173,676	$12,993,438
EXPENDITURES:			
Educational and General Funds:			
Instruction	$4,668,051	$154,996	$4,823,047
Public Service	4,524	45,196	49,720
Academic Support	678,941	148,798	827,739
Student Services	1,243,945	226,832	1,470,777
Institutional Support	1,161,668	91	1,161,759
Operation and Maintenance of Plant	1,209,248		1,209,248
Scholarships and Fellowships	297,399	1,595,155	1,892,554
Educational and General Total	$9,263,776	$2,171,068	$11,434,844
Auxiliary Enterprises:			
Expenditures	$1,767,166		1,767,166
Mandatory Transfers	147,723		147,723
Auxiliary Enterprises Total	$1,914,889		$1,914,889
TOTAL EXPENDITURES AND TRANSFERS	$11,178,665	$2,171,068	$13,349,733
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Prior Year Adjustments	(24,731)	(3,457)	(28,188)
TOTAL OTHER TRANSFERS AND ADDITIONS	(24,731)	(3,457)	(28,188)
NET INCREASE (DECREASE) IN FUND BALANCE	($383,634)	($849)	($384,483)

The notes to the financial statements are an integral part of this statement.

NORTHERN MONTANA COLLEGE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1991

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Northern Montana College is one of six units of the Montana University System. The Montana University System is a legal and financial component unit of the State of Montana. The College is governed by the Board of Regents of Higher Education. Board members are appointed by the Governor.

Accrual Basis

The financial statements have been prepared on the full accrual basis in accordance with generally accepted accounting principles for colleges and universities. The statement of current fund revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: 1) expenditures, in the case of normal replacement of movable equipment; 2) mandatory transfers, in the case of required provisions of debt amortization and interest; and 3) transfers of a nonmandatory nature in all other cases.

Fund Accounting

The accounts of the college are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group:

Current funds - include all unrestricted and restricted resources which are available for support of operations.

Loan funds - include amounts received from donors, governmental agencies and mandatory institutional matching grants which are restricted for use in making loans to students.

Endowment funds - include amounts which are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity.

Plant funds - are separated into four distinct subgroups with self-balancing accounts:

Unexpended - utilized for acquisition of long-term institutional assets.

Renewal and Replacement - utilized for maintenance of long-term institutional assets.

Retirement of Indebtedness - utilized for debt service charges and retirement of indebtedness on long-term institutional assets.

Net Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

Agency funds - include assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Plant Assets and Depreciation

Investment in plant represents an accumulation of the cost of purchased assets net of trade-in amounts. Gifts are recorded at market value when received. Buildings are recorded at historically based appraisal values with subsequent additions at cost. Assets purchased are recorded as expenditures in the various funds in the year of purchase. Depreciation on physical plant and equipment is not recorded.

Investments

All gains and losses from the sale or disposition of investments, except for income derived from investments of endowment fund moneys, are recorded as revenues of the fund in which the investments are recorded. Gains and losses on endowment investments are recorded as stipulated by restrictions on each endowment.

Inventories

Inventories primarily consist of textbooks and school supplies and are valued according to the first in - first out (FIFO) basis at cost.

Note 2 - INVESTMENTS

All investments are recorded at cost. Investments consist primarily of amounts invested through the Montana State Board of Investments short-term investment pool and by the trustee as required by the bond indentures. Bond trustee investments comprise government securities that are classified in risk category 1. Risk category 1 includes investments that are insured, registered or uninsured, unregistered securities held by the state or its agent in the state's name. Investments owned by the various funds at June 30, 1991 are as follows:

	MT Board of Investments	Bond Trustee
Current Unrestricted Funds:		
Auxiliary Enterprises	$84,600	
Loan Funds:	99,900	
Endowment Funds:	65,500	
Plant Funds:		
Unexpended	9,000	
Renewal and Replacement	13,000	200,181
Retirement of Indebtedness	100,000	179,400
Agency Funds	155,000	
Total	$ 527,000	$ 379,581

Since fiscal year 1986-87, the Northern Montana College Development Foundation has managed a college endowment from the alumni association. The principal amount of the endowment is $6,231.

Note 3 - LONG TERM OBLIGATIONS

On August 19, 1987, the Board of Regents of Higher Education for the State of Montana (The Board) and Northern Montana College issued Auxiliary Facilities and Student Building Fees Revenue Bonds Series A 1987 in the aggregate principal amount of $1,445,000. The Bonds are limited obligations of the Board, and are payable solely from, and secured by a first party lien on Auxiliary Facilities Revenues, student fee revenues, and earnings from investments of certain funds and accounts created under the bond indenture.

As of June 30, 1991, the college had $1,340,000 in outstanding revenue bonds payable. The annual debt service requirements for the next five years, including interest, are as follows:

Fiscal Year Ending June 30	Payment Amount
1992	$ 148,185
1993	150,366
1994	147,273
1995	148,885
1996	150,010
1997-2007	1,620,823
	$ 2,365,542

On September 4, 1985, the State of Montana Board of Regents of Higher Education (The Board) authorized the issuance of Series 1985 Special Purpose Revenue Bonds. The Bonds are an obligation of the Board of Regents of Higher Education. The purpose of the issue was to provide funding to various units of the Montana University System for the acquisition and installation of computer hardware, computer software, and various other types of equipment.

The issue consisted of an A, B, and C series. On August 27, 1986, the Board of Regents of Higher Education issued C series bonds to provide funding to Northern Montana College. Northern Montana College has entered into a loan agreement with the Board of Regents of Higher Education to repay their portion of the debt associated with the C series. The loan is payable through the year 1992 from the gross pledged revenues of the college's computer fees.

Semi-annual deposits for a bond and interest sinking account are required equal to the interest and principal to become due on the following payment date. Deposits must be made no later than 10 days prior to the payment date. A debt service reserve fund in the amount of $20,000 must also be maintained with a trustee.

At June 30, 1991, the principal amount of outstanding bonds was $55,227. The projected debt service for the bonds, including interest, is as follows:

Fiscal Year Ending June 30	Payment Amount
1992	$ 47,292
1993	11,823
	59,115

Additional long-term obligations of the college are discussed in note 8.

Note 4 - CAPITAL LEASES

Northern Montana College is obligated under a capital lease of telephone equipment expiring in 1992. The assets and liabilities under the lease are recorded at lower of the present value of the minimum lease payments or the fair value of the assets. The assets are not depreciated.

Future minimum rental payments under the capital lease are:

Fiscal Year Ending June 30	Principal	Interest
1992	$ 27,389	$ 2,099
1993	9,666	163
Total Minimum Lease Payments	$ 37,055	$ 2,262

Northern Montana College has a lease agreement with IBM Corporation for the acquisition of personal computers and accessories for instructional use. The following is a schedule by year of the future minimum rental payments required under the lease agreement which will expire March 31, 1993.

Fiscal Year Ending June 30	Principal	Interest
1992	$ 16,155	$ 1,461
1993	12,115	1,097
Total Minimum Lease Payments	$ 28,270	$ 2,558

On February 1, 1991, Northern Montana College entered into a five year lease for the acquisition of a copy machine. The following is a schedule by year of the future minimum rental payments required under the lease agreement which will expire January 31, 1996.

Fiscal Year Ending June 30	Principal	Interest
1992	$ 10,291	$ 1,507
1993	10,291	1,507
1994	10,291	1,507
1995	10,291	1,507
1996	6,003	878
Total Minimum Lease Payments	$ 47,167	$ 6,906

Note 5 - RETIREMENT PROGRAMS

Retirement benefits are provided for academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and all other staff through the Montana Public Employees' Retirement System (PERS). Both plans are administered by the state of Montana. During fiscal year 1987-88, an optional retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) was made available to contract faculty and certain professional administrative employees.

Defined Benefit Plans

Teachers' Retirement System

The Teachers' Retirement System is a mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA. Teachers' Retirement System participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit.

Public Employees' Retirement System

Established in 1945 and governed by Title 19, Chapter 3, MCA, Public Employees' Retirement System (PERS) participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

Defined Contribution Plan

The Optional Retirement Program (ORP), a defined contribution plan established under the authority of Title 19, Chapter 21, MCA, provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option.

Retirement Plan Information as of June 30, 1991

	PERS	TRS	ORP
Covered Payroll	$ 1,758,828	$ 3,253,294	$ 634,912
Total Payroll	6,445,765	6,445,765	6,445,765
Employer Contributions	112,864	242,663	18,768
Percent of Covered Payroll	6.417%	7.459%	2.956%
Employee Contributions	110,806	229,162	44,723
Percent of Covered Payroll	6.300%	7.044%	7.044%

Retirement Plan Information as of June 30, 1990

	PERS	TRS	ORP
Covered Payroll	$ 1,792,660	$ 2,985,463	$ 666,340
Total Payroll	6,191,921	6,191,921	6,191,921
Employer Contributions	115,035	222,686	19,697
Percent of Covered Payroll	6.417%	7.459%	2.956%
Employee Contributions	110,249	210,296	46,937
Percent of Covered Payroll	6.150%	7.044%	7.044%

For ORP participants, a total of $28,590 or 4.503% in 1991 and $30,005 or 4.503% in 1990 was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Note 6 - COMPENSATED ABSENCES

Eligible college employees earn eight hours sick and ten hours annual leave for each month worked. The annual leave earned increases with longevity. Employees may accumulate annual leave up to twice their annual accrual amount and sick leave may accumulate without limitation. The accumulated liability for compensated absences totaled $598,035 at June 30, 1991.

Note 7 - ENROLLMENT RECORDS

Units of the university system report enrollment figures for each quarter to the Commissioner of Higher Education. The Legislature uses enrollment data as part of a formula to fund the university system. Enrollment is measured in full time equivalents (FTE's). The following schedule shows FTE count at the college for fiscal years 1989-90 and 1990-91.

Schedule of Student FTE

Quarter	Year	(1) Undergraduate FTE's Reported	(2) Graduate FTE's Reported	Total FTE's Reported
Summer	1989	589	125	714
Fall	1989	1,312	83	1,395
Winter	1990	1,320	80	1,400
Spring	1990	1,152	81	1,233
Summer	1990	624	184	808
Fall	1990	1,270	74	1.344
Winter	1991	1,255	60	1,315
Spring	1991	1,168	79	1,247

(1) Undergraduate quarterly credit hours divided by 15.

(2) Graduate quarterly credit hours divided by 12.

Note 8 - RELATED PARTY TRANSACTIONS

Northern Montana College has obtained two loans from the Northern Montana College Development Foundation. The loans were obtained by the college to finance the costs of street paving and roof structure repairs for the gymnasium and swimming pool. The roof repairs were necessary to ensure the continued use and safety of the facilities. The loans are supported by two promissory notes issued by the college to the Northern Montana College Development Foundation. The first note was issued for $100,000 on February 27, 1991. The second note was issued for $140,000 on July 15, 1991. The promissory notes will be repaid through parking fees, gym use fees and building fees collected each academic term. The minimum annual payments including interest are as follows:

Note 1		Note 2		
Sept. 1, 1992 - $111,047		July 15, 1992	-	$53,162
		July 15, 1993	-	53,162
		July 15, 1994	-	53,162
				159,486

NORTHERN MONTANA COLLEGE

Schedule of Assets, Liabilities and Fund Balance

Auxiliary Facilities and Student Building Fees Revenue Bonds
Series A 1987 – Pledged Revenue Fund

June 30, 1991

ASSETS

Cash	$52,328
Investments	60,000
Accounts Receivable less allowance for doubtful accounts of $942	240,419
Inventory	191,677

TOTAL ASSETS	$544,424
	========

LIABILITIES AND FUND BALANCE

Accounts Payable and Accrued Expenses	17,337
Student Deposits	32,932
Deferred Revenue	35,242
Due to Other Funds	261,583
Compensated Absences	20,358
Fund Balance	176,972

TOTAL LIABILITIES AND FUND BALANCE	$544,424
	========

NORTHERN MONTANA COLLEGE

Schedule of Revenues, Expenditures,
Transfers and Changes in Fund Balance

Auxiliary Facilities and Student Building Fees Revenue Bonds
Series A 1987 – Revenue Fund

Fiscal Year Ended June 30, 1991

Revenues:	
Tuition and Fees	$199,476
Sales of Auxiliary Services	1,381,460
Investment Income	16,718

Total Revenues	$1,597,654
Expenditures and Transfers:	
Personal Services:	
Salaries	301,803
Wages	103,917
Benefits	91,212

Total Personal Services	496,932
Operating Expenses:	
Contracted Services	230,391
Supplies and Materials	20,586
Communications	13,054
Travel	1,483
Rent	157
Utilities	190,687
Repair and Maintenance	261,721
Other Expenses	36,765
Goods Purchased for Resale	478,830

Total Operating Expenses	1,233,674
Equipment	15,549

Total Expenditures and Transfers	1,746,155

Excess Revenues Over Expenditures and Transfers	(148,501)
Fund Balance – July 1, 1990	325,473

Fund Balance – June 30, 1991	$176,972
	==========

NORTHERN MONTANA COLLEGE

Schedule of Assets, Liabilities and Fund Balance

Board of Regents of Higher Education
Special Purpose Revenue Bonds
Northern Montana College Equipment Financing
Series C 1986 – Pledged Revenue Fund

June 30, 1991

ASSETS	
Cash	$3,248
Investments	9,000
Accounts Receivable	49

TOTAL ASSETS	$12,297
	========
LIABILITIES AND FUND BALANCE	
Deferred Revenue	9,502
Due to Other Funds	5
Fund Balance	2,790

TOTAL LIABILITIES AND FUND BALANCE	$12,297
	========

NORTHERN MONTANA COLLEGE

Schedule of Revenues, Expenditures,
Transfers and Changes in Fund Balance

Board of Regents of Higher Education
Special Purpose Revenue Bonds
Northern Montana College Equipment Financing
Series C 1986 – Pledged Revenue Fund

Fiscal Year Ended June 30, 1991

Revenues:	
Computer Use Fee	$61,099
Investment Income	712
Computer Lab Rental	300
Total Revenues	$62,111
Expenditures and Transfers:	
Expenditures:	
Contracted Services	500
Equipment	2,717
IBM Lease Payment	17,616
Total Expenditures	20,833
Mandatory Transfer for Debt Service	41,792
Total Expenditures and Transfers	62,625
Excess Revenues Over Expenditures and Transfers	(514)
Fund Balance – July 1, 1990	3,304
Fund Balance – June 30, 1991	$2,790

University System Responses

NORTHERN
MONTANA
COLLEGE

APR 28 1992

April 23, 1992

Scott Seacat
Legislative Auditor
Room 135 Capitol Building
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is Northern Montana College's response to the report recommendations made as a result of your recent audit.

On behalf of Northern Montana College, I wish to thank the audit staff for their professional review of our fiscal operations.

Sincerely,

William R. Byars Jr.

William R. Byars Jr.
Director of Fiscal Affairs

Post Office Box 7751 • Havre, Montana 59501 • (406) 265-3700 • FAX (406) 265-3777
Member of the Montana University System • AA EOE

RECOMMENDATION #1.

We recommend the college establish effective procedures to ensure operating budgets are prepared, approved, recorded and expended in accordance with state law.

RESPONSE:

CONCUR. The college will develop procedures to more closely monitor budgets and expenditures to assure complete compliance with state law. Regarding the expenditure of Operation and Maintenance of Plant program operating expenses in fiscal year 1989-90, Northern Montana College received approval from the Board of Regents to expend operating expenses in place of personal services. The college did not seek this approval in fiscal year 1990-91 since the identical budget transfer continued. It was assumed that since the expenditures were a continuation of activity already approved, a second approval was not necessary.

RECOMMENDATION #2.

We recommend the college establish procedures to ensure the approved budgets are recorded on the state's accounting records in accordance with state law.

RESPONSE:

CONCUR. The college will review present procedures and improve them to meet the requirements of state law. In regard to the unrecorded Restricted Fund operating authority, the college will change the procedure it has used in previous years. In the past, the Board of Regents approved operating budget for Restricted Fund activity was an estimate. The college only recorded portions of the approved budget authority as actual grants were received. In the future, the campus will establish the Board of Regents approved budgets on SBAS and then reduce it by the amount of actual grants as they are received. In addition, review procedures will be implemented to ensure that budget documents have processed correctly and budget amounts are accurately reflected on the accounting records.

RECOMMENDATION #3 A.

We recommend the college record financial activity in compliance with state law and bond indenture requirements.

RESPONSE:

CONCUR. The college will review financial transactions, particularly at fiscal year end, to ensure that all activity is in compliance with state law and bond indentures.

RECOMMENDATION #3 B.

We recommend the college repay $37,000 to the Auxiliary Fund to comply with bond indenture requirements.

RESPONSE:

CONCUR. $37,000 will be returned to the Auxiliary Fund.

RECOMMENDATION #4.

We recommend the college establish procedures to separately identify expenditures used to match federal grants on the accounting records in accordance with federal regulations.

RESPONSE:

CONCUR. In the summer of 1991, Northern Montana College began establishing separate responsibility centers to more clearly identify and document expenditures representing match for each federal grant. We are committed to both honoring our federal grant match requirements as well as providing clear documentation of our match.

RECOMMENDATION #5 A.

We recommend the college establish and document responsibility for approving charges to federal programs.

RESPONSE:

CONCUR. Federal grant administration policies are currently being drafted to provide both communication and documentation of grant related responsibilities including the approval of grant expenditures.

RECOMMENDATION #5 B.

We recommend the college ensure employees approving charges to federal programs are familiar with regulations regarding which costs are allowable to the programs.

RESPONSE:

CONCUR. Northern Montana College will strive to inform grant project directors of the federal regulations governing the allowability of expenditures charged to federal grants. We are committed to full compliance with all federal regulations.

RECOMMENDATION #6.

We recommend the college improve procedures to ensure the guarantee agency is notified of student enrollment status changes in accordance with federal regulations.

RESPONSE:

CONCUR. Procedures have been enacted to ensure that the guarantee agency is notified of student enrollment status changes in accordance with federal regulations. These procedures include electronic transmission and computer processing of the Student Confirmation Reports in an effort to eliminate human error from this process.

RECOMMENDATION #7.

We recommend the college improve procedures to ensure required exit interviews are held in accordance with federal regulations.

RESPONSE:

CONCUR. The Financial Aid Office has developed an electronic master student loan participation file which will be maintained in order to track students as they pursue their educational goals. When a student participates in a loan program, a master record will be created. When students exit school, they will be compared to this file and consequently identified as a loan recipient and exit interviewed in accordance with federal regulations.

RECOMMENDATION #8 A.

We recommend the college establish procedures to ensure assets are recorded only once on the accounting records.

RESPONSE:

CONCUR. Motor vehicle descriptions and valuations are currently being completely recorded on the Inventory Control System. The college will no longer include the motor vehicle insurance listing in the documentation of the college's total equipment value. The use of a single listing with unique tag numbers should ensure that assets are only recorded once on the accounting records.

RECOMMENDATION #8 B.

We recommend the college record all property items, including donated, on the accounting records in compliance with state policy.

RESPONSE:

CONCUR. Northern Montana College is currently working to develop, document and implement policies for the valuation of donated items. In the months ahead, our efforts will be to record all property items in accordance with state policy.

RECOMMENDATION #8 C.

We recommend the college comply with state policy by assigning property numbers and affixing tags to all property items.

RESPONSE:

CONCUR. Additional physical inventory work has been completed and will continue to be performed to affix tags to all property items required to be tagged.

RECOMMENDATION #9.

We recommend the college amend its Residence Hall Check-In/Out Record and contract to comply with state law.

RESPONSE:

PARTIALLY CONCUR. Northern Montana College is committed to honoring every student's right to privacy and providing notice of entry into a student's room. We will review our Residence Hall forms to consider whether other language would better comply with statutory provisions.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-3104
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

April 15, 1992

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT. 59620

Dear Mr. Seacat:

Enclosed are the University System responses to the financial-compliance audit report of Northern Montana College for the two years ended June 30, 1991. Thank you for the opportunity to respond.

Sincerely,

Laurie O. Neils

Laurie O. Neils
Director of Budget and Accounting

c: John Hutchinson

RECOMMENDATION #1

We recommend the college establish effective procedures to ensure operating budgets are prepared, approved, recorded and expended in accordance with state law.

UNIVERSITY SYSTEM RESPONSE:

Concur.

The University System has diligently monitored personal services expenditures and budgets to determine compliance with legislative restrictions. However, improvement is needed in order to comply with the five percent restriction. Effective fiscal year 1992, the Office of the Commissioner of Higher Education requires all campuses to complete the operating budget portion of their budget adjustment forms prior to approval. Additionally, the Office of the Commissioner of Higher Education will send a memo to the units of the University System prior to fiscal year-end reminding the campuses of the five percent restriction.

However, the University System respectfully suggests that the Legislature reconsider the benefit of the five percent restriction. The five percent restriction states:

> Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority...Substantial compliance means that no category in the approved operating budget may be exceeded by more than 5 percent....

The Dictionary For Accountants defines budget as "any financial plan serving as an estimate of and a control over future operations". A budget, then, should be a forecasting tool which is subsequently compared with reality. The budget of state agencies at fiscal year-end usually does not reflect the original budget, but rather the end-of-year expenditures. If budgets remained as approved by an approving authority, then fiscal year-end final expenditures would be measured against this budget to determine the accuracy and effectiveness of the original budget. A "budget" which is constantly changed loses its meaning.

The issue of cost versus benefit is also relevant to the five percent restriction. The Legislature already closely monitors personal service expenditures. The five percent restriction places additional monitoring, documentation, and adjustment requirements on management. After all is said and done and all adjustments have been made in compliance with the restriction, what has been gained? The agency and legislature have lost any meaningful comparison between expenditures and legislative intent for the expenditures of that budget.

RECOMMENDATION #9

We recommend the college amend its Residence Hall Check-In/Out Record and contract to comply with state law.

AGENCY RESPONSE:

Partially concur.

The auditor misreads the contract. In the offending contract clause cited by the auditor the words "at any time" modify "emergency" only and not "inspection". As written and applied the dorm contracts are not in violation of statute. Sections 20-25-511 to 514 MCA were enacted in 1973 to implement the newly adopted constitutional privacy provisions. The title to the act stated that its purpose was to "protect a student's right to privacy concerning his place of residence" (Chapter 357, Law of 1973). The gist of 20-25-511 and 512 is that a dormitory resident has the same expectations of privacy as would a resident in a private dwelling. The college's contract, consistent with 20-25-511 and 513, reserves the right to inspection upon twenty-four hours notice and the right to entry "in case of emergency at any time". These provisions are also consistent with the access and privacy provisions of the state landlord-tentant act (70-24-312 MCA).

The auditor's suggestion that the contract explicitly require "written notice" instead of "notice" would merely make the wording of the contract consistent with existing practice. However, the auditor's suggestion that the contract be amended to "define" written notice is not as simple a matter as it first might seem. For example, is a general notice posted on a dorm bulletin board a written notice? Or, is a notice given via an electronic mail system to a student's personal computer a written notice? Issues such as these mean that defining written notice in a contract as the auditor suggests would take several sentences or maybe even paragraphs. It is the opinion of university legal counsel that having readable, concise contracts written in general terms is usually preferable to having lengthy contracts written in legalese. This is especially true when the existing short contract is being applied in a manner consistent with existing law.